



VINCENT C. GRAY
MAYOR

March 1, 2012

Dr. Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 203
Washington DC 20004

Dear Dr. Gandhi:

Thank you for the briefing yesterday on your revised revenue estimates for the District.

Although I was encouraged by the upswing in projected revenue for fiscal years 2012 and 2013, I was disappointed that the \$36 million increase you now project for FY2013 is so modest over your last estimate in December. As you noted, even with these new numbers a funding gap of \$115 million still remains between the FY2013 Current Services Funding Level and projected FY2013 revenue. Should your estimates hold up, the Executive and the Council will be forced to identify significant spending cuts, additional sources of revenue, or both in order to balance the budget. Needless to say, such a scenario is extremely unwelcome.

I am concerned that your revenue projections may be unrealistically low. Although the numbers you provided me yesterday are positive, I am unclear that your modeling accurately incorporates the many positive trends currently underway in the District such as:

- **A Growing Population.** As you know, in January the U.S. Census released revised population estimates that reflect significant growth in the District of Columbia: more than 17,000 new residents moved to the District in the past sixteen months. Demographic details suggest these new residents are young professionals who contribute substantially to the tax rolls – and the data suggest the growth trend will only continue.
- **Falling Unemployment.** Over the past several months, unemployment in the District has dropped significantly. And we anticipate an additional reduction in the unemployment rate when the Bureau of Labor Statistics releases new numbers next week.

- **An Expanding Economy.** Over the past several years, the District's economy has consistently outperformed the rest of the country. With the national economic recovery now picking up steam and significant local development beginning to come online, the District seems poised to grow at an even faster clip.

It is difficult for me to believe that the revenue impact of these positive trends in fiscal year 2013 will be as insignificant as you currently project.

In addition, I am concerned that your assumed impacts of the possible automatic federal spending cuts currently scheduled to take effect in January 2013 (often referred to as sequestration) are unrealistically significant. For example, your FY2013 individual income tax revenue projection seems very low compared to what you project to see in FY2012. And the difference between your December 2011 and February 2012 individual income tax revenue projections for FY2013 is de minimis despite your revising downward the negative impact of sequestration by 2 percentage points (from 8.5 percent to 6.5 percent).

I am perplexed by so much seemingly contradictory information.

As I continue to review the information you have provided and develop my FY2013 budget, I am requesting that you share additional information regarding several assumptions behind your economic modeling, including:

1. Property Taxes:
 - a. Assumed rate of change in property assessments by class of property.
 - b. Assumptions on the incidence and value of deed and recordation taxes.
2. Individual Income Tax:
 - a. A list of all economic assumptions used to estimate resident income in the District of Columbia, including population, employment, and what, if any, decisions were made in selecting various economic outlook scenarios.
 - b. An estimate of individual income tax revenue for FY2013 (given current population and employment trends) in the absence of sequestration, assuming the most negative economic outlook.
 - c. An estimate of individual income tax revenue for FY2013 (given current population and employment trends) in the absence of sequestration, assuming the most positive economic outlook.
 - d. An estimate of the impact of sequestration on individual income tax revenue for FY2013 in the absence of population and employment growth.
 - e. A list of any other economic or employment statistics or assumptions that may have influenced individual income tax revenue estimates.

3. Business Income Taxes:

- a. A discussion of what is continuing to drive business income tax revenue downward in your estimates, given the slow but steady economic recovery.
- b. Detailed information on the assumptions – both in terms of economic activity and collections – that were made in estimating business income tax revenue.
- c. An estimate of the impact of sequestration on business income tax revenue for FY2013.

4. Lottery Revenues:

- a. Detailed statistics for FY2012 to-date on lottery sales and resulting District of Columbia revenues on a game-by-game basis;
- b. A list of assumptions used to estimate growth/reductions in lottery revenues to the District of Columbia. This is especially important since, as you will recall, when I was Chairman you shared that we should expect an immediate increase of \$5 million with the selection of a new contractor.

I appreciate your cooperation in this matter and look forward to receiving this information within the next week.

Sincerely,

A handwritten signature in black ink that reads "Vincent C. Gray". The signature is written in a cursive, flowing style with a large, stylized "V" at the beginning.

Vincent C. Gray
Mayor